

## Korea's Conundrum: Dealing with U.S. Sanctions on Iran

by Troy Stangarone ([ts@keia.org](mailto:ts@keia.org))

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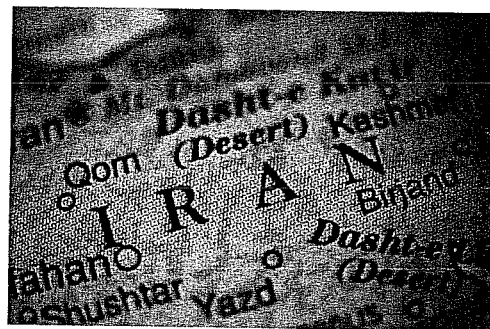
**Korea's Government  
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As Washington seeks to ratchet up the pressure on Iran, Seoul finds itself faced with the prospect of supporting the United States in its efforts to head off Tehran's nuclear ambitions while undermining its own economic interests at the same time. With Iran continuing to take actions that raise concerns about its continuing efforts to pursue nuclear weapons, the United States has sought to rally international support for increased sanctions that go beyond those set out in UN Resolution 1929.

In June, Congress passed the Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010. The legislation extends the existing sanctions on Iran to any foreign companies that sell Iran goods, services, or knowledge that aids in the development of the country's energy sector. The legislation also bans U.S. banks from undertaking financial transactions with foreign banks that do business with the Islamic Revolutionary Guard Corps or that help to facilitate Iran's nuclear program and its support for terrorism.

To effectively enforce this initiative, the United States is believed to have pressured Korea to freeze the assets of Bank Mellat, the second largest bank in Iran, which is believed to have funneled money to Iran's nuclear program. The bank's Seoul branch serves as its Asian hub and is one of only three branches outside Iran. According to Korean news reports, 70 percent of export transactions between Korea and Iran, involving some 2,000 Korean businesses, are handled by Bank Mellat. Most of these businesses are small and medium-sized enterprises that have already been affected by the new U.S. sanctions, as Korean banks have stopped conducting transactions with Bank Mellat to maintain their access to the U.S. banking system.

This effort creates obvious problems for South Korea, which has recently enjoyed robust trade relations with Iran has grown to nearly \$10 billion a year. Iran is Korea's second largest export market in the Middle East and is its fourth largest supplier of oil, providing about 10 percent of Korea's petroleum imports. Implementing sanctions against Iran and freezing the assets of Bank Mellat could lead to retaliatory measures by Iran, which could hurt many key Korean industries in the Middle East, including



the construction industry. The last time Korea supported International Atomic Energy Agency action against Iran, Tehran responded by restricting Korean goods; it has threatened to raise its tariffs on Korean goods should Seoul meet the current U.S. sanction requests.

Korea is not the only country to face a choice between joining Washington to put additional pressure on Iran and seeking to protect its economic interests. The European Union and Japan are Iran's largest and third largest trading partners, respectively. While both have agreed to join the United States in placing additional sanctions on Iran, in the past both have been reluctant to utilize sanctions. On prior occasions, the European Union has pushed back against the extraterritorial nature of the United States sanctions on Iran's energy sector and sought waivers for its businesses in Iran, including in the energy sector.

Korea's situation is made more complex by the suspected connections between Iran and North Korea. There have long been suspicions of ties between Iran and the North Korea on both Iran's missile program and its nuclear program. These concerns will ultimately make it more difficult for Seoul to find the middle path it seeks of supporting the United States' efforts to limit Iran's nuclear interests while not undermining its own economic interests in Iran.

# In and Out of North Korea: Kim Jong-il Stands Up Jimmy Carter With Surprise Trip to China

by Nicole Finnemann ([nmf@keia.org](mailto:nmf@keia.org))

Being stood up can sting. Unless, of course, the person standing you up has a really good excuse — perhaps there was an emerging national crisis that needed to be addressed. While we may never know what excuse Kim Jong-il gave former U.S. president Jimmy Carter for why he could not meet last week, the timing of the departure raises a lot of interesting questions.

## Back Story

On January 25, Bostonian Aijalon Mahli Gomes—who had been teaching English in South Korea—crossed the Chinese border into North Korea in an effort to bring exposure to the North's repression of human rights and religious freedom. He was convicted of illegally entering the country and committing a "hostile act", fined \$700,000 and sentenced to eight years of hard labor. Months later, and after Gomes reportedly tried to commit suicide, four U.S. State Department officials traveled to Pyongyang to negotiate his release on humanitarian grounds. They failed, and the North Korea's UN mission in New York told the Carter Center in Atlanta that Gomes would be freed if, and only if, President Carter came to bring him home. On August 23, Carter flew to North Korea as a private citizen to secure the release of the 31-year-old American. The world assumed this meant that Carter would meet Kim Jong-il, something he had unsuccessfully requested on his visit in 1994. Kim, however, clearly had other plans.

While Carter was in Pyongyang, Pyongyang's dictator took off on a midnight train for China in a seemingly unplanned and haphazard exodus from his own capital. By Monday, August 30, Chinese and North Korean state media had both confirmed that Kim had visited the northeastern Chinese city of Changchun and had met with China's President Hu Jintao. Why Kim Jong-il decided to take this unexpected trip to China and why he chose to do it during President Carter's visit remain unknown.

## Kim Jong-il and Jimmy Carter

In 1994, in a historic summit with the then-leader of North Korea Kim Il-sung, Carter had one specific request for the leader following their landmark deal-making: He wanted to meet his son, the successor, Kim Jong-il. Some reports suggest that Kim Il-sung agreed to the meeting, but that his son refused. Sixteen years later, Carter's trip to negotiate the release of Gomes was expected to finally bring about the meeting of these two leaders, one year after fellow ex-president Bill Clinton made the trip to North Korea to secure the release of two imprisoned American journalists.

It is difficult to imagine Carter's accepting an invitation to travel to Pyongyang without any firm assurances that he would meet with the Dear Leader. Indeed, when news of Kim's trip to China emerged on Aug. 25, it was also reported that Carter had extended his stay in Pyongyang, suggesting that even the former president was also surprised by Kim's departure. It is possible that Kim had originally intended to meet with Carter, however. News reports that Pyongyang requested Carter to be the envoy over others who volunteered, such as Senator John Kerry or Governor Bill Richardson, suggests that Kim himself was directly involved in the selection. It is possible that once Kim saw the U.S. government distancing itself from the Carter trip and planning to implement new sanctions on the North Korean regime, Kim's hope of the former president's visit as a means to reboot relations with Washington and possibly forestall sanctions diminished. As a result, the Dear Leader saw no reason to meet with Carter anymore.

## Kim Jong-il and Hu Jintao's Meeting

The agenda for Kim's meeting with China's Hu was apparently full. While Chinese statements indicate that Beijing officials wanted to use the meeting to encourage North Korea to reform its economy, Kim Jong-il's motives for attending are up for speculation. The rumor mill suggests a number of possible reasons:

**Getting Back to the Six Party Talks** – Official reports say that Kim told Hu he "remained committed to the denuclearization of the Korean peninsula and that he hoped for an early resumption of multilateral talks on the North's nuclear program." So far the talks have failed to reconvene, but China is showing a renewed drive to restart the process soon. We know this because the week prior to Kim's mysterious trip to China, Wu Dawei, Beijing's chief nuclear negotiator, was in Pyongyang before heading to Seoul and Tokyo for further discussions.

**Introducing China to North Korea's Next Leader** – Many analysts believe the purpose of trip may have been to introduce Beijing to the Dear Leader's youngest son and heir apparent, Kim Jong-eun. In two weeks, at a rare party meeting in Pyongyang, Kim is expected to elevate his son to a top position in the Korean Workers Party and even officially designate him as the successor.

**Help?** – And finally, Kim's trip could have been for more basic reasons – seeking more economic assistance. Floods, bad weather, and bad financial decisions have left North Korea with a serious need for food, fuel and money. In addition, China also owes North Korea reparations for the damage it caused when it opened floodgates along the Tumen River, causing deaths and damage across the border. China has historically paid the North for damages when it relieves reservoirs from excess water by flooding the Shinuiji side in North Korea, where there are no flood walls. While it is possible the need for such reparations would warrant a face-to-face between the two leaders, it is highly unlikely. If the trip was about aid, it was likely seeking a much larger package.

## Facts on U.S. Sanctions for North Korea

by Nicole Finnemann ([nmf@keia.org](mailto:nmf@keia.org))

On Aug. 30, the United States announced it would be implementing new targeted sanctions aimed at North Korean elites' lifestyle and the regime's illicit international activities. The apparent driving force behind these punitive actions the sinking of the South Korean warship Cheonan and Washington's desire to demonstrate solidarity with iSeoul over the incident. Two initiatives were announced:

President Barack Obama announced he was expanding the scope of Executive Order 13466, an order originally issued by President George W. Bush on June 26, 2008, under the National Emergency Act. This executive order gives the U.S. government new authorities to go after arms sales, luxury goods procurement, money laundering, counterfeiting of currency and "other illicit financial activities that enrich the highest echelons of the North Korean government while the North Korean people suffer." The Obama administration highlighted three specific factors that prompted this expansion:

The unprovoked March attack on the Cheonan by North Korea  
The North's announced test of a nuclear device in May 2009  
The North's 19 missile launches in 2009

number of North Korea's key entities involved in illicit activities were identified, including Office 39, a secretive branch of the North Korean government that manages slush funds and raises money for the leadership through drug trafficking and other illegal means. Other entities affected include the Green Pine Associated Corporation; its government sponsor, Reconnaissance General Bureau; and the bureau's commander, Lt. Kim Yong Chol. Green Pine is responsible for approximately half of North Korea's exports of arms and related material.

To learn more about Executive Order 13466, you can find the Aug. 30 update here: <http://www.whitehouse.gov/the-press-office/2010/08/30/executive-order-president-blocking-property-certain-persons-with-respect>

Executive Order 13382 was also reissued by the administration to broaden the scope of sanction targets for North Korea's WMD proliferation activities. Five additional North Korean government entities and three individuals were newly added. They included:

## 2010 Opinion Leaders Seminar: US-South Korea Alliance Strong, but Challenges Ahead

by Martha Legocki ([ml@keia.org](mailto:ml@keia.org))

As KEI's annual Opinion Leaders Seminar (OLS) marks its tenth year, the conference's pertinence to the key issues of the U.S.-Korean alliance has not faded with age. If anything, OLS allows its participants a fresh opportunity to hash out their perspectives by engaging in frank, off-the-record discussion with fellow leaders in the field. Participants were asked to tackle the most prominent challenges comprising the U.S.-South Korea relationship. By general consensus among the participants, the alliance is stronger now than it has been in a long time—perhaps ever. This can be largely attributed to the strong friendship between presidents Barack Obama and Lee Myung-bak. In a departure from the often tempestuous relationship between the two nations' leaders during the preceding administration of Roh Moo-hyun, the era of Obama and Lee has yielded goodwill and a positive look toward a future of continued cooperation. Despite this reinvigorated partnership, however, a number of weighty challenges loom on the horizon.

### The Persistent Question of North Korea

The visibly declining health of Kim Jong-il has incited discussion of an impending transfer of power in the DPRK, and recent provocations on the part of Pyongyang are often interpreted in light of the larger issue of succession. Whatever happens, the next few years are likely to be rocky and contain a higher-than-normal level of uncertainty. Although the international community has become acclimated over the years to a certain level of aggravation by Pyongyang, many find the flavor of recent events to be different from before. The unprecedented frequency of party meetings and the rearrangement of several key leaders within the ranks of the Kim government have not passed unnoticed by Korea watchers. In addition, North Korea currently is facing a serious food shortage, with little or no humanitarian aid coming in from the outside. Memories of famine in the 1990s give rise to the possibility of unrest among the North Korean population. Some OLS participants felt that at a time of transition, and fearing another food crisis, citizens could actually dare to act upon their feelings of discontentment with the regime.

### South Korean Public Opinion

Surprisingly, the sinking of the Cheonan did not catalyze a strong unified stance by the South Korean public against the North Korean regime, despite the North's apparent culpability. Rather, public response to the government's report on the Cheonan incident demonstrated a cleft in opinion toward the current Lee administration. This division falls primarily on generational lines, with only 1.1% of 19- to 29-year-olds strongly trusting the government report, as opposed to 72.8% of those older than 60. Korean OLS participants noted that this generational fissure is part of a broader trend now apparent among the South Korean public.

Korea Taesong Trading Co. and Korea Heunjin Trading Co., two front companies that facilitate deals for North Korean arms dealer KOMID with Iran and Syria. The Second Economic Committee and the Munitions Industry Department, which oversee ballistic missile production and development. The Second Academy of Natural Sciences, which is involved in research and development of missiles and nuclear weapons capabilities. Three individuals: Ri Je-son and Ri Hong-sop of the General Bureau of Atomic Energy and Yun Ho-lin of the Namchongang Trading Corporation, a company of the General Bureau of Atomic Energy.

To read details of new sanctions under Executive Order 13382, see the U.S. Treasury Department's official listing here: <http://www.ustreas.gov/press/releases/tg840.htm>

### China

South Korea is frustrated with China over its still-stalwart backing of North Korea. As China's significance on the international scale becomes increasingly pronounced, its enduring support of the rogue regime becomes more blatant, as seen in its refusal to acknowledge North Korea as perpetrator of the Cheonan attack. Beijing's continued protection of Pyongyang is not only straining its relations with Seoul; it is also injuring China's reputation in the eyes of the greater international community.

### Delayed Transfer of OPCON

A new twist on a familiar topic is the recent postponement of the transfer of wartime operational control, or OPCON, from U.S. to South Korean military forces. Initially slated for April 2012, the transfer of OPCON was recently pushed back by over three and a half years to December 2015. The delay was generally touted by OLS participants to be a critical move on the part of the alliance. A slew of leadership changes in Northeast Asia is scheduled to occur in 2012, including in China, Russia, and South Korea. These changes, combined with a presidential election in the United States that same year, could make way for a reshuffling of relationships and political agendas across the board. In addition, the South Korean command and control structure itself is still in many ways insufficient, lacking the ability to coordinate across all segments of its military and intelligence forces to face adequately the North Korean threat. The delay was at least in part prompted by the Cheonan attack in March, which underscored North Korean use of asymmetric warfare tactics as well as vulnerabilities in the U.S.-South Korean military framework.

### KORUS-FTA

Although U.S. congressional approval of the Korea-United States Free Trade Agreement (KORUS FTA) is expected in 2011, a number of hurdles must still be surmounted to reach that point. Despite President Obama's vocal support of the FTA, passage has largely been stymied by the members of his own party. In addition, the high degree of mistrust that exists between the United States and South Korean auto industries must be resolved before passage of the FTA can become truly feasible.

### G-20 in Seoul

Progress on two essential agenda items will ultimately gauge the success of the G20 summit in Seoul this November: 1) repairing the global financial imbalance, and 2) reforming the international financial regulatory system without hindering growth. The recent G8 and G20 summits in Toronto yielded few substantive results in the way of addressing the recent financial crisis. But South Korea's relatively unscathed emergence from the crisis lends it clout as a leader among member nations. This is a good position for South Korea to hold as it plays host to November's summit, but some are concerned that Seoul's role will recede as the financial situation improves over time.



## Upcoming KEI Events:

**North Korea, Libya, and Iran: Comparing Economic Sanction Regimes**

**September 15, 2010 @ 12:00- 1:30PM**

**The China-ROK Trade Relationship and Implications for Managing Security Cooperation**

**October 14, 2010 @ 12:00-1:30pm**

For more information on KEI Events, visit [www.keia.org](http://www.keia.org)

## Korea's Government Scholarship Program (KGSP): A Global Network for Four Decades

*by Greg Scarlatou (gs@keia.org)*

The appeal of Korea's economic success and newly acquired international prominence has resulted in increased interest in studying in South Korea. Still, the percentage of foreign students studying in Korean universities is one of the lowest among OECD countries. In 2009, while 210,000 Koreans were studying overseas, only about 70,000 foreign nationals were pursuing their studies in Korea. The country's ambition to become a more popular destination for foreign students can be traced back to the late 1960s, when the Korean Government Scholarship Program (KGSP) for foreign fellows was established. Since its inception, the program has brought to South Korea about 3,000 students from 123 countries, representing a very broad range of academic fields of study. About 1,000 have successfully completed their studies in Korean universities.

The National Institute for International Education (NIIED), an institution under the umbrella of the Ministry of Education, Science and Technology, manages KGSP. Until the late 1990s, only a limited group of Korean universities, mostly located in Seoul, hosted KGSP fellows. NIIED now oversees a broader assignment of fellows to universities all over South Korea. In 2003, NIIED also began a re-invitation program for former KGSP fellows, aimed at stimulating continuity in educational exchanges, inspiring current fellows, and helping to create a network of KGSP alumni, ultimately establishing chapters in all countries represented in the program. NIIED also publishes a quarterly KGSP alumni newsletter that includes articles authored by former fellows on academic and technical issues, as well as updates for the alumni community on relevant developments pertaining to alumni chapters worldwide.

NIIED's efforts to develop a KGSP alumni network and facilitate communication with and among former fellows may prove instrumental in Korea's ambition to

become a hub" of international education in Northeast Asia. In addition to the Korean universities hosting foreign students, about 15 foreign universities, 14 of them American, are considering setting up shop on the Songdo Global University Campus in the Incheon Free Economic Zone. KGSP alumni with experience studying in Korea over the past four decades could provide advice that would be instrumental to making needed improvements that foreign students often mention, including providing career counseling; improving Korean language classes; hiring more English-speaking administrative staff; increasing dormitories and other facilities for foreign students; enhancing cultural sensitivity and openness towards other cultures; and offering health services on a par with countries that are top destinations for foreign students.



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**In this issue:**

**The Agenda for the Seoul Summit**

**G-20 Make or Break for KORUS FTA**



**G20  
SEOUL  
SUMMIT  
2010**

## Special G-20 Issue

### Korea's Moment: A Look at the Upcoming Seoul G-20 Summit

by Troy Stangarone ([ts@keia.org](mailto:ts@keia.org))

*"The Republic of Korea is honored to be the first host and chair from the Asian region as well as from an emerging economy. I assure you we will do our utmost to ensure success of the upcoming Seoul Summit."*

*Lee Myung-bak, President of the Republic of Korea*

In less than two weeks world leaders will arrive in Seoul for two days of intense discussions on the current global economic recovery. Unlike the prior G-20 meetings during the crisis, the Seoul Summit will be more focused on the long-term recovery from the crisis than focused on managing the global economic crisis. The near meltdown in Greece and other European countries, along with the slow economic growth and low rate of job creation in the world's advanced countries demonstrate that the global economy has not completely put the crisis of 2008 and 2009 behind it. That said, the Seoul summit will be the first G-20 meeting without the threat of an imminent economic collapse at its doorstep.

However, the road ahead for the G-20 will arguably only grow more challenging as national interest begins to reassert itself and the shared sense of cooperation and responsibility that emerged during the financial crisis fades. The first three G-20 summits in Washington, London, and Pittsburgh at the height of the crisis are generally seen as successes that staved off economic collapse and helped to add to the credibility of the G-20 as an effective global forum for handling the world's economic problems, but the success of the summit in Seoul will go a long way towards shaping the future of the G-20. With this in mind Korea has sought to carry forward the G-20 agenda that was born in the crisis while adding the issues of financial safety nets and development to the agenda.

#### What the G-20 Summit Means to Korea

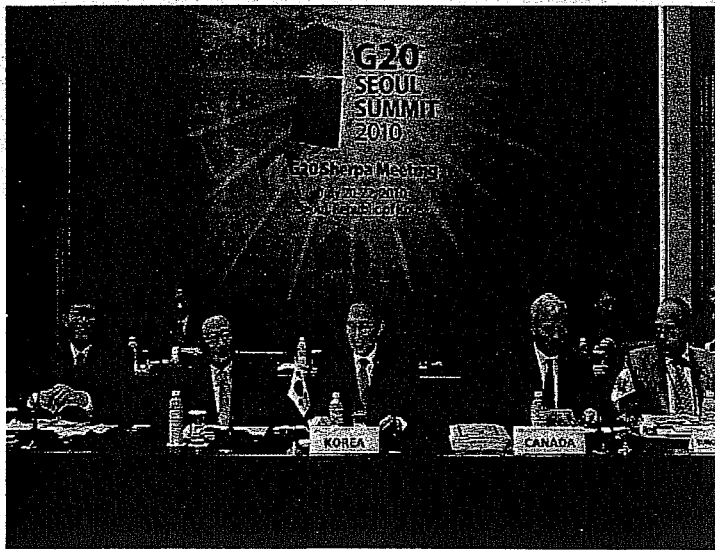
Since the G-20 was elevated to prominence by the recent financial crisis, all of the G-20 meetings have taken place in G-7 countries. Korea will be the first

country that was not a member of the G-7 and the first nation in Asia to host a G-20 Leaders Summit. This will arguably be the one of the most important milestones in modern Korean history. While the 1988 Seoul Olympics and Korea's membership in the OECD signified Korea's emergence from the devastation of the Korean War and its rise as a modern economy, the G-20 will signify Korea's transition to a greater leadership role in the global community. Since the end of the Second World War, most major decisions in the global economy have taken place among the G-7 countries or between the EU, the United States, and Japan in the WTO. In recent years, India and Brazil began playing a larger role in the WTO and other international forums, a role more reflective of the changes that have taken place in the global economy. Up to this point, Korea has been a rule taker in the international system, accepting the rules made by more powerful states. As chair of the G-20, Korea has begun to have a role in shaping those rules.

#### A New Innovation is Added to the G-20, the Seoul Business Summit

When the crisis hit in the fall of 2008, an unprecedented level of cooperation and coordination between world governments was required to avoid another Great Depression. As the G-20 looks forward towards creating sustainable growth, the private sector will play a key role in job creation. As such, Korea will be hosting the first business leaders' summit which will take place just prior to the G-20 and allow 120 leaders from some of the world's largest corporations in the G-20 and beyond





to interface with global leaders on how to address the world's economic problems.

At the summit, the business leaders will provide their recommendations to the G-20 leaders in four areas of concern: (1) revitalizing trade and foreign direct investment; (2) enhancing financial stability and supporting economic activity; (3) harnessing green growth; and (4) corporate social responsibility. If successful, the establishment of the business summit and the interaction between the public and private sector in dealing with the global economic challenges will be a permanent feature of the G-20 and one of many likely critical contributions of the Seoul Summit.

### Will the Seoul Summit Be A Success?

If the leaders of the G-20 endorse all of the proposals put forward, it may not be until years later when the instruments adopted and decisions made in Seoul are put to the test that we will understand the Seoul Summit's impact on the global economy. For instances, if adopted in Seoul, it may only be when the Basel III accords are tested by the next financial crisis or if we see policy changes over the coming months that reduce global trade imbalances can we begin to see the Seoul Summit's contribution. This means that the Seoul Summit must be evaluated over time. Some signposts to consider after the Seoul Summit are the following:

In the immediate term, have the leaders of the G-20 brought forward and made progress towards meeting the implementation goals of prior commitments? This is the standard by which many will judge the Seoul Summit and could be considered the credibility test for the G-20. Do any new agenda items address the core capacities of the G-20 to help further global economic stability and growth? Are those changes then incorporated into the G-20's long term agenda? Does the summit help to further define and institutionalize the role of G-20 as the preeminent forum for international economic cooperation? Global economic governance is currently in a transition and this is the institutionalization test for the G-20. Over the medium term, do we see policy changes in surplus countries such as Germany and China and deficit countries such as the United

States work toward managing and lessening the global imbalances, or do they continue policies that exacerbate those imbalances? Over the medium and long term, do we see all of the G-20 countries committed to implement financial reforms decided at the Seoul Summit and do those reforms help these countries withstand the next financial crisis?

## The Agenda for the Seoul Summit

At the Seoul Summit, the G-20 leaders are set to review and endorse a series of proposals put forward by the finance ministers and the central bank governors of the G-20 from their recent meeting in Gyeongju, and previous proposals put forward by the Basel Committee on Banking Standards, the International Monetary Fund (IMF), the Financial Stability Board (FSB), and others. These proposals can be categorized into essentially two groups – those that pertain to agenda items from previous summits and those that are new to the G-20 agenda. Ongoing agenda items include: (1) strong, sustainable, and balanced growth; (2) the reform of international financial institutions; and (3) financial sector reform. As the first non-G8 country to host the G-20, Korea has tried to serve as a bridge between the developed and the developing world. In doing so, it has sought to add new issues: (1) financial safety nets; (2) development; and (3) green growth. Below is an overview of each of the G-20 agenda items:

### Previous Agenda Items

#### *Strong, Sustainable, and Balanced Growth Proposals*

- A framework for reducing trade imbalances with potential numerical targets
- The second stage of the mutual assessment process focusing on a country-level analysis of economic policies
- Movement towards market determined exchange rates and refraining from the competitive devaluation of currencies
- A greater role for the IMF in monitoring countries fiscal and budgetary policies

#### *Reform of International Financial Institutions*

- Shifting 6 percent of IMF voting shares from advanced economies to emerging economies
- A doubling of IMF quota shares – an assigned value that determines what a country's maximum financial commitment to the IMF is, how much it can borrow, and its voting power

#### *Financial Reforms under Consideration*

- The Basel Committee on Banking Standards proposal to raise banking capital requirements
- The recommendations of the FSB to increase supervisory intensity and effectiveness
- An FSB proposal on mitigating the risks posed by systemically important financial institutions and the "too-big-to-fail" problem

## New Agenda Items

### Financial Safety Nets

- The enhancement of the IMF's existing Flexible Credit Line and the establishment of a Precautionary Credit Line to protect small and developing countries from volatile capital flows

### Development Issues

- A multi-year action plan from the G-20's newly established Development Working Group that will help to provide guidance to developing countries in eight key areas: infrastructure, trade, private investment, knowledge sharing, food security, human resources, governance, and financial inclusion

### Green Growth

- The establishment of "green growth" as a G-20 agenda item focused on providing a new engine of economic growth and to aid developing and emerging nations in long-term growth

## G-20 Make or Break for KORUS FTA

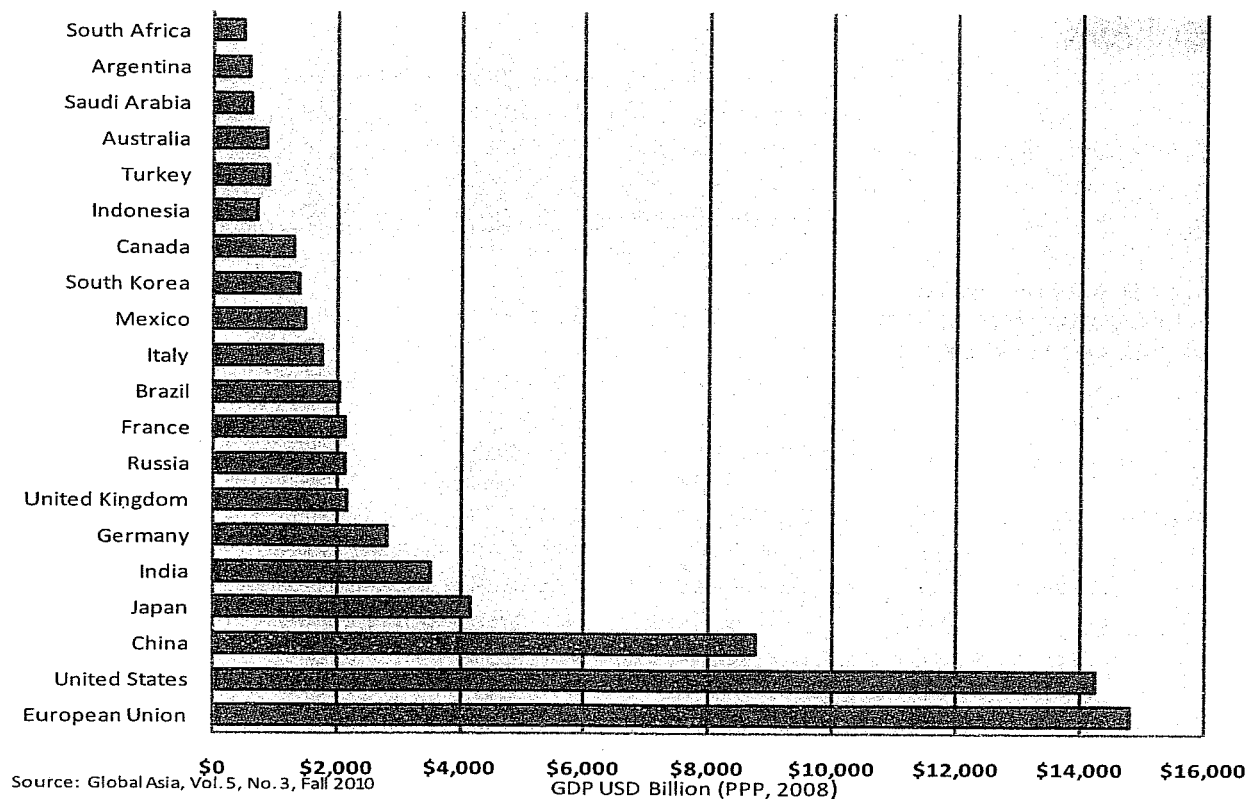
While most of the attention in Seoul will be focused on the G-20 Summit, the future prospects of the KORUS FTA should become clearer at the G-20 as well. At the Toronto G-20 meeting in June Presidents Barack Obama and Lee Myung-bak agreed to resolve any outstanding disputes on the FTA by the Seoul summit this month and both have recently reaffirmed their commitment to meeting that deadline.

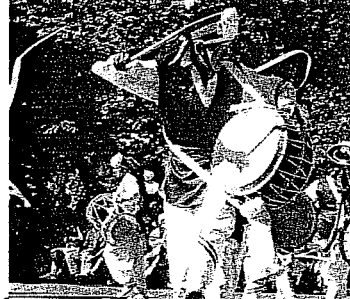
If the two sides are able to conclude an agreement in Seoul, the expectations are that the administration would look to send the agreement to Capitol Hill for passage early next year. The Republican leadership, which won control of the House of Representatives in the November 2 elections, has indicated that they are more receptive to passing the agreement than the outgoing Democratic leadership. The KORUS FTA is also one of the few policy areas that the administration and the new Republican leadership have shown an interest in cooperating, likely enhancing the agreement's prospects for passage in early 2011.

It is unlikely that we would see the administration attempt to move the agreement during the lame duck period for a series of reasons. The Congress is currently scheduled to only be in session for two weeks after the election and there is a potentially heavy legislative load ahead. The current federal budget is set to expire on December 3 and the Congress will either have to pass a budget for the remainder of the fiscal year or pass a continuing resolution to carry on funding the government until the next Congress could take up the issue. In addition, the Bush tax cuts which are set to expire on January 1 will likely be addressed in the lame duck session. There has also been consideration given to passing the new START Treaty during the lame duck session as well.

There are also political issues that may arise that would complicate the passage of the KORUS FTA during the lame duck session. In December the president's budget commission is set to make its recommendations on reducing the budget deficit and the Pentagon is set to release its survey of service members on the issue

Relative Size of G-20 Countries





### Upcoming KEI Event

**Buying into the Hermit Kingdom: Practices and Implications for Foreign Investment into the DPRK**  
November 15  
3:00 – 4:30 p.m.

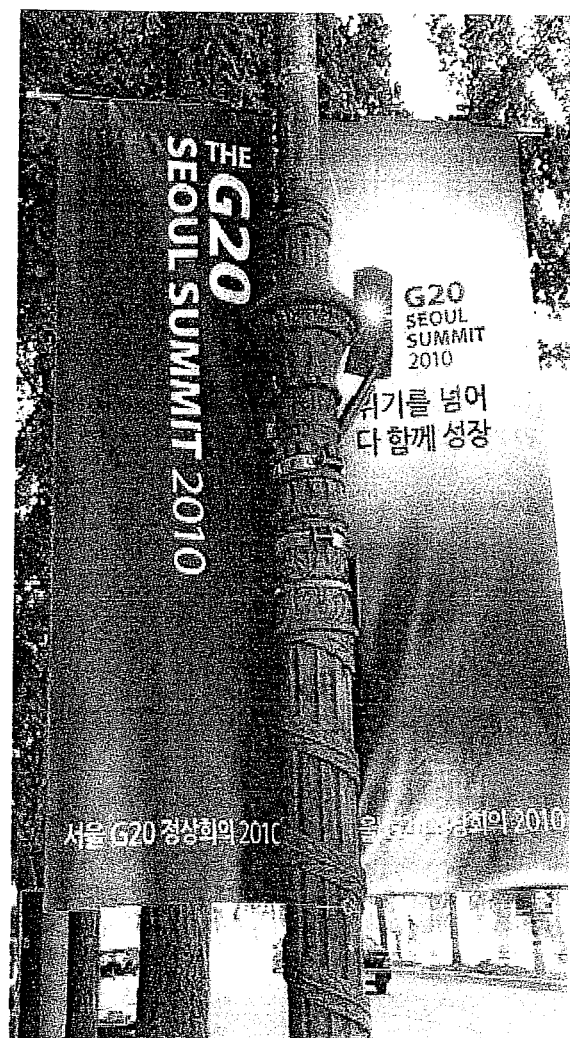
**Defiant Failed State: The North Korean Threat to International Security**  
November 23  
3:00 - 4:30 pm

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of “don’t ask, don’t tell.” Either of these issues could become dominate political themes during the lame duck period crowding out other issues.

If the two sides are unable to reach a complete agreement and instead announce a framework, the prospects for the KORUS FTA in 2011 become more uncertain. The legislative agenda for the next session of Congress will be set in the near future and, if the agreement is not finalized by the G-20 summit, it would not have a place on the legislative calendar. This could lead to the agreement being overtaken by other legislative issues, including the Panama FTA, and other future events. However, it would still be possible for the agreement to be sent up for passage in 2011 if a deal could be struck shortly after the G-20, but the longer the delay on reaching an agreement the less likely KORUS FTA will be ratified in 2011. With 2012 being a presidential election year and the domestic controversy of the KORUS FTA, the agreement could potentially be taken off the table for consideration.

In short, if the two sides can strike a deal in Seoul this month, the agreement has the best prospects for passage it has seen since it was originally signed in June of 2007. Thus, the ideal time for the two sides to resolve their differences is now. Failure to reach an agreement increases uncertainty and gives the opposition more opportunity to derail the agreement in both the United States and Korea.



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